

INTERNAL REVENUE SERVICE
P.O. Box 13163
Baltimore, MD 21203

DEPARTMENT OF THE TREASURY
Southeast Key District Office (EP/EO)

PERSON TO CONTACT:

CONTACT TELEPHONE NUMBER:

IN REPLY REFER TO:

DATE: MAY 11 1998

CERTIFIED MAIL

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code and have determined that you do not qualify for tax exemption under that section. Our reasons for this conclusion and the facts on which it is based are explained below.

The information submitted indicates that you were incorporated in [REDACTED]. Your [REDACTED] states that your purposes are to promote the interest of members of the corporation in connection with their ownership of franchises in the [REDACTED], and in this regard to take such actions as may be incident thereto, including the development of programs and ideas and the provisions of educational and other services designed to further enhance the opportunities available to the members of the corporation within such system.

Income to your organization is from annual membership dues and investment income, while expenses are incurred to activities related to the organization's exempt purposes and interest per the Form 1024.

Your application indicated that your organization will provide legal assistance to franchise members regarding national issues or concerns presented by the [REDACTED]. Your application also indicated that in order to qualify for membership you must be an existing [REDACTED] or a professional organization who contributes to or assists an existing franchise.

Section 501(c)(6) of the Internal Revenue Code provides for exemption of business leagues, chambers of commerce, real estate boards, boards of trade, and professional football leagues, which are not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations states that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. Its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Date	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Revenue Ruling 56-65, published in Cumulative Bulletin 1956-1, on page 194, held that a local organization whose principal activity consisted of furnishing particular information and specialized individual service to its individual members engaged in a particular industry through publications and other means to effect economies in the operation of their individual businesses was performing particular services for individual persons. Such organization did not qualify for exemption under section 501(c)(6), of the Internal Revenue Code as a business league even though it performed functions which were of benefit to the particular industry and the public generally.

Revenue Ruling 56-84, published in Cumulative Bulletin 1956-1, on page 201, held that an organization operated primarily for the purposes of promoting, selling, and handling the national advertising in its members' publications, is engaged in the performance of particular services for individual members as distinguished from activities for the improvement of business conditions of its members as a whole was not entitled to exemption from Federal income tax under Code section 501(c)(6).

Revenue Ruling 58-294, published in Cumulative Bulletin 1958-1, on page 244, held that an organization formed to promote the business interests of those involved in the manufacture and sale of a particular patented product, whose membership is limited to those engaged in the manufacture and sale of the product, and which owns the controlling interests in the corporation which holds the basic patents in the product, does not qualify for exemption as a business league under Internal Revenue Code section 501(c)(6), since it is engaged in furthering the business interests of the dealers of a particular product as distinguished from improving business conditions generally.

Revenue Ruling 59-234, published in Cumulative Bulletin 1959-2, on page 149, held that a real estate board whose activities included the operation of a multiple listing system was considered to be rendering a particular service for its members and was not exempt from Federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code.

Revenue Ruling 67-77, published in Cumulative Bulletin 1967-1, on page 138, held that an organization composed of dealers in a certain make of automobile in a designated area organized and operated for the primary purpose of financing general advertising campaigns to promote, with funds contributed by dealer members, the sale of that make of automobile was not entitled to exemption under section 501(c)(6). The rationale of this denial of exemption was that the organization was performing particular services for its members.

Revenue Ruling 67-176, published in Cumulative Bulletin 1967-1, on page 140, held that an organization formed to provide a specific service to members of a given profession and to those preparing to enter the profession on matters relating to their practices did not qualify for exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code.

Revenue Ruling 68-182 published in Cumulative Bulletin 1968-1, on page 263, states that it is the position of the Internal Revenue Service that organizations promoting a single brand or product within a line of business do not qualify for exemption from Federal income tax under section 501(c)(6) of the Code.

Revenue Ruling 68-265, published in Cumulative Bulletin 1968-1, on page 140, held that an organization was formed to foster the interests of persons engaged in a particular line of business through furnishing a credit information service to its members. The exchange of credit information among the members was a convenience and economy to them in their businesses and did not qualify for exemption under section 501(c)(6) of the Internal Revenue Code.

National Muffler Dealers' Association v. U.S. 440 U.S. 472 (1979) a trade association confined its membership to dealers franchised by a particular company and its activities to the business of that company. In this case, the court ruled that the organization was not entitled to exemption under section 501(c)(6) since its activities and membership does not serve the industry as a whole but only a segment of a line of business.

Our review of the application filed by your organization indicates that you are not entitled to exemption under section 501(c)(6) since your membership is limited to [REDACTED] and does not include members of the industry as a whole from within the community. Under this type of operation, your organization does not meet the requirement that your activities improve conditions in one or more lines of business and your activities do not serve the profession as a whole, but only the members of your association.

Therefore, we have concluded that you do not qualify for exemption from Federal income tax as an organization described in section 501(c)(6) of the Code. In accordance with this determination, you are required to file Federal income tax returns on Form 1120.

If you do not agree with our determination, you may request consideration of this matter by the Office of Regional Director of Appeals. To do this you should file a written appeal as explained in the enclosed Publication 892. Your appeal should give the facts, law, and any other information to support your position. If you want a hearing, please request it when you file your appeal and you will be contacted to arrange a date. The hearing may be held at the regional office, or, if you request, at any mutually convenient district office. If you will be represented by someone who is not one of your principal officers, that person will need to file a power of attorney or tax authorization with us.

If you don't appeal this determination within 30 days from the date of this letter, as explained in Publication 892, this letter will become our final determination on this matter.

Appeals submitted which do not contain all the documentation required by Publication 892 will be returned for completion.

If you have any questions, please contact the person whose name and telephone phone number are shown in the heading of this letter.

Sincerely,



Paul M. Harrington
District Director

Enclosure: Publication 892